



Vietnam Shows a Way Through the Coronavirus Crisis

Frontier country positioned well by effective containment.

July 2020

KEY INSIGHTS

- Vietnam has reported no deaths from COVID-19; it has contained the pandemic better than developed and emerging market peers and is expected to avoid a recession.
- Efforts to contain the coronavirus have highlighted improvements in governance, a positive trend that should support the country's future prosperity.
- We are finding attractive investment opportunities in high-quality companies in the banks, consumer discretionary, and information technology sectors.

Given its geographical proximity to China and previous experience with the SARS outbreak in 2003, the Vietnamese authorities were quick to act in response to the spread of the novel coronavirus.

Sweeping Containment Measures

The first case of COVID-19, the disease caused by the coronavirus, was detected in January 2020, and restrictions on

movement—alongside social distancing measures—were enforced from the start of February. Actions taken included forced quarantines; tracing of infected people's contacts; and the conscription of medical students, retired doctors, and nurses.

Education played a key role, with songs about handwashing going viral in the country and propaganda-style art informing people on how to protect themselves and help to contain the



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Tracking COVID-19 in Vietnam

Measures to date have proven effective

334

Number
of Cases*

0

Number
of Deaths*

275,000

Number
of Tests†

0.28%

Tests per
Population†

0.10%

Proportion of
Positive Tests†

*Cases and deaths as of June 16, 2020.

Source: World Health Organization: covid19.who.int/region/wpro/country/vn.

† Tests as of May 12, 2020.

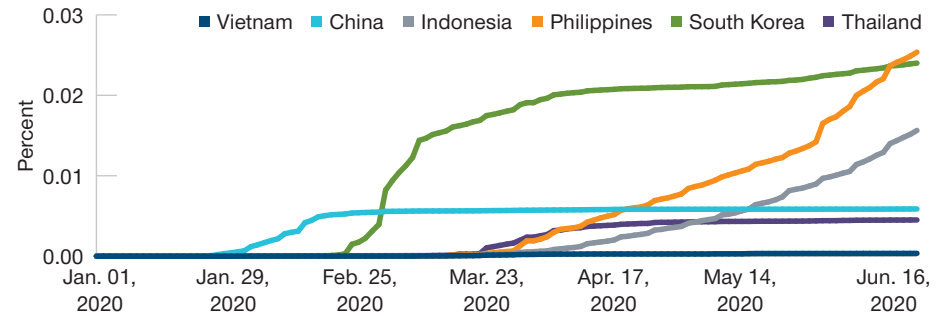
Source: Vietnam Ministry of Health: news.chinhphu.vn/Home/Viet-Nam-has-conducted-275000-COVID19-tests-health-official-says/20205/40083.vgp.

“We also expect the macroeconomic backdrop to remain resilient and Vietnam to avoid an overall recession.

— Oliver Bell,
Portfolio Manager,
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Vietnam’s Relatively Low Case Count

(Fig. 1) Confirmed number of cases per capita by country



As of June 16, 2020.

Source: University of Oxford/Haver Analytics.

spread of the virus. The authorities also showed transparency in reporting the number of cases and locations of infected persons, with data being published on a government website.

Success Story

At the time of this writing, there are no reported deaths from the coronavirus in Vietnam and the rate of infections appears to have been controlled thus far. Our internal model¹ ranks Vietnam in the top group for containing the spread of the virus compared with other major frontier and emerging countries. Notably, Vietnam’s story also compares favorably with many wealthier countries, which were far better resourced to tackle the crisis and conducted widespread testing, including Germany and South Korea.

Improvements in Governance Help Support Containment Efforts

While the government’s authoritarian approach allowed the implementation of strict quarantines, sometimes closing off entire neighborhoods in response to local cases of infection, the effectiveness of

the response can also be at least partially attributed to the nation’s move toward improved governance in recent years.

Vietnam has made notable progress in improving governance and responsiveness at local levels, as well as in professionalizing the administrative state. According to the Viet Nam Provincial Governance and Public Administration Performance Index, which collates the views of citizens, the steepest upward trajectories in 2019 have occurred in enhancing control of corruption in the public sector and increasing transparency in local decision-making.²

There has also been a move toward achieving universal health coverage (UHC), one of the United Nations’ Sustainable Development Goals. The country has made great strides toward this, achieving a UHC index score of 73 out of 100, with 82% of the Vietnamese population covered by social health insurance.³ Vietnam showed relatively advanced progress toward achieving UHC when compared with other countries in its region.

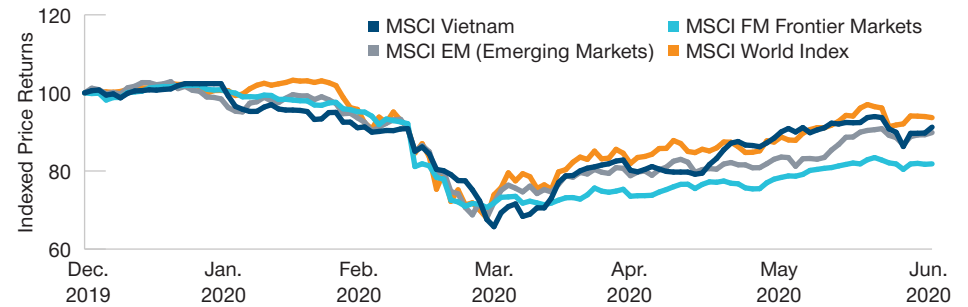
¹ Our internal model considers COVID-19 infection rates and resulting deaths, the associated ratios, relevant news flow, and the percentage of the population tested.

² CECODES, VFF-CRT, RTA, and UNDP (2020). The 2019 Viet Nam Governance and Public Administration. Performance Index: Measuring Citizens’ Experiences. A Joint Policy Research Paper by the Centre for Community Support and Development Studies (CECODES), Centre for Research and Training of the Viet Nam Fatherland Front (VFF-CRT), Real-Time Analytics (RTA), and United Nations Development Programme (UNDP). Ha Noi, Viet Nam.

³ Source: World Health Organization, 2018.

Vietnamese Equities Dragged Lower With Global Markets

(Fig. 2) Year-to-date performance relative to peers



Past performance is not a reliable indicator of future performance.

As of June 10, 2020.

December 31, 2019 = 100.

Sources: MSCI via FactSet and MSCI (see Additional Disclosure).

We believe that these vast advancements in health care, combined with greater access to information and better corruption control, would all have aided Vietnam's strict but apparently effective response to the pandemic.

Poised to Weather the Global Economic Impact

Vietnam has coped relatively well with the health and social effects of the coronavirus. However, its equity market and economy have suffered as the global pandemic has spread and lockdown measures have been imposed. Vietnam's market has exhibited high beta due to the country's open economy and deep integration with global markets.

However, given the country's cautious approach to containing the virus and relatively early action, Vietnam has the advantage of being among the first to be able to ease lockdown measures. Easing began on April 22, and by May 7, most schools, universities, and nonessential services had reopened. International travel continues to be banned.

Similar to action taken elsewhere, the Vietnamese government introduced a fiscal support package to buoy the economy. This package was valued at approximately VND 271 trillion, or a meaningful 3.6% of gross domestic product (GDP),⁴ which is relatively significant when compared with stimulus undertaken by Vietnam's frontier and emerging market peers. Measures have also been put in place to support businesses, and financial support has been made available for the most vulnerable households. Meanwhile, the State Bank of Vietnam lowered interest rates by 50 basis points to 4.5% and introduced guidelines to commercial banks to reschedule loans, reduce or exempt interest, and provide loan forbearance.

Much uncertainty remains around the virus, potential resurgences in infections, and the economic impact of the drastic actions that have been taken worldwide in an effort to contain the spread. Actions taken in Vietnam appear to have resulted in a much less severe impact of the virus so far in terms of level of illness and fatalities.

⁴Source: International Monetary Fund, June 2020.

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— Leigh Innes,
Portfolio Specialist,
Frontier Markets Equity Strategy

We also expect the macroeconomic backdrop to remain resilient and Vietnam to avoid an overall recession. The latest estimates of GDP growth for 2020 are within the range of 2.7% and 4.8%,⁵ with a stronger bounce back forecast for 2021.

Positioning for a Post-Coronavirus Recovery

Our investment team maintains a positive outlook on the macroeconomic backdrop in Vietnam. The market sell-off provided opportunity and left some company valuations looking particularly compelling. We maintain our positions in high-quality Vietnamese names and believe that our investment case for Vietnamese equities remains intact. Careful stock picking remains key, and we are finding opportunities in the following segments of the market:



Banks: Despite this challenging time, quality Vietnamese banks appear to be well positioned to weather the storm. Our investee companies reported steady first-quarter results and there have been some strong performers year to date. We are paying particular attention to the strength of balance sheets and capital buffers.



Consumer Discretionary: Uncertainty remains in the near term, at the very least; however, the relatively early easing of lockdown measures in Vietnam should support the recovery for companies in the consumer discretionary space. We believe potential winners will emerge. We continue to monitor changes in consumer behavior, particularly those that may be

accelerated by the pandemic such as a move toward the formal sector and increased online sales, and look for companies that will be able to maintain their structural growth.



Information Technology: An increased need for digitalization in a post-pandemic world may support companies in this space, such as Vietnam’s largest information technology company, FPT.

Emerging on the Other Side

Vietnam is unlikely to emerge unscathed from the coronavirus crisis—its open economy is likely to suffer as a result of weakness in the global economy. However, the country’s ability to effectively contain the spread of the pandemic has given it an advantage over regional peers.

The efforts to contain the virus have also highlighted the improvements in governance that the country has undergone, in terms of enhancing local decision-making, tackling corruption, and making advances in social health insurance provisions. These are positive trends that should support the country’s future prosperity.

Vietnam has shown a way through the coronavirus, and our outlook for the country is positive. We think that market volatility is providing us with opportunities to invest at attractive valuations in high-quality companies—in particular in the banks, consumer discretionary, and information technology sectors.

⁵ According to International Monetary Fund estimates, the Vietnamese economy will grow at a rate of 2.7% in 2020; the Asian Development Bank estimates a rate of 4.8%, and the World Bank a rate between 3% and 4%. All estimates as of April 2020.



WHAT WE'RE WATCHING NEXT

Vietnam could emerge as a big potential winner from the global coronavirus disruptions. The country is likely to avoid a recession and could be a beneficiary of shifting global supply chains. Vietnam's seemingly effective containment of the coronavirus, as well as favorable population dynamics, should boost its attractiveness as a destination for foreign direct investment.

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